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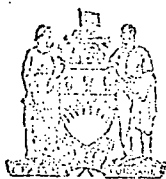
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**Title:**

Letter to Gorton - Drought Relief Sought

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D.L. 2618/70

Premier's Office,

Adelaide.

Dear Mr. Gorton,

This is an application for financial assistance from the Commonwealth for the State of South Australia to enable the State to take emergency measures to mitigate the effects of the present drought which is now apparent and which will have a crippling effect on primary industry in this State during the next twelve months or so.

Rainfall experience this year has been very much below average in a number of areas but at this stage the situation is most severe in three areas:-

- a. the West Coast,
- b. the northern areas,
- c. the Murray Mallee areas.

Attached hereto is a report and map showing rainfall statistics at centres across the State in previous droughts or very dry years, compared with rainfall to date this year. (Appendices A, B and C)

In many of the drier areas no seeding has taken place at all. In some of these areas it is now too late to repair the situation and any seeding which is effected will be carried out purely as a conservation measure. In other areas where seeding was carried out, germination has been poor and growth has been weak and patchy. In many areas wheat, only a few inches high, is running to head and will yield nothing. In other areas crops are barely off the ground and are drying off. The chance of improvement in these cases, even if good rains arrive right now, is negligible.

There is very little feed available in paddocks apart from the meagre residue of last year's crops, and in a number of locations, farmers are selling off their stock for what they can get for it. Emergency rulings made by the Metropolitan and Export Abattoirs Board have given priority to stock from drought areas, but in many cases the stock is in such poor condition as not to give a return sufficient to cover transport costs. Instances have been quoted in recent weeks of sales of sheep for as little as 10s to 15s a head and farmers are slaughtering and burying sheep on their properties or using the carcasses for pig feed, rather than incur the expense of hand feeding.

Some discussions have been held with banks and stock firms regarding the extent of financial support which may be available from normal commercial channels to enable farmers to obtain carry-on finance, and it is confidently expected that these institutions will again assist to the maximum extent possible consistent with the security available and their assessment of the ability of the farmer to service additional commitments. However, compared with earlier years, and in particular compared with the 1967 drought emergency measures which were implemented in this State, continuous falls in wool prices and the necessity to impose wheat quotas, both of which have materially reduced farm income, coupled with ever rising costs, have materially affected the market value of farming properties, and therefore farmers' equity in their land.

Thus there are three categories of farmers with whom the Government is concerned.

The first is that group who will be in difficulty because, whilst the drought has drastically reduced, and in some cases, completely eliminated farm income for the year, they are the occupiers of farms which, given an early return to reasonable seasons, will yield a reasonable income. The word "reasonable" is used in the sense that the income is sufficient to enable the farmer to meet commitments and leave him a surplus which, whilst it represents by no means a commercial return for his capital and labour and, in some cases, is little more than the minimum wage, is sufficient to enable him to go on living the life he has chosen fortified by optimism that things must improve. However, to obtain further finance from commercial sources, he must also have equity and this presents a problem for many farmers.

Banks and other commercial lenders would be reluctant to make further advances where they consider that such may reach, or even exceed, reasonable expectations of forced sale values. Similarly, stock losses and poor returns from stock will see many farmers owing money to stock firms with livestock assets quite disproportionate to the amount of their debts. Nonetheless, these farmers will probably be able to carry on and recover their situation providing they have carry-on finance available. I have gone to some lengths in reciting the present financing situation, because I believe that the present drought will see many more farmers applying for carry-on finance than was the case in 1967 when the banks were able, within their traditional approach to lending, to assist what was probably the bulk of their clients to recover from the drought of that year.

I think I should mention that there was some criticism in 1967 of the criterion that Government assistance was only available for those applicants who had been refused assistance from normal commercial channels. It was considered that the less provident and therefore less credit worthy farmers, farming properties which had not been materially improved, were helped and that the farmer who had put back all his surpluses into his property to build up his equity was forced to recover from the drought by using much more expensive finance.

Of the total of \$2.2 million spent on drought measures in 1967-1968, some \$560,000 represented repayable advances made to farmers and the first instalment of \$69,000 was repaid to the Commonwealth in March of this year. You will appreciate that in 1967 the incidence of drought was most severe in the Mallee area although there were other pockets which qualified for assistance. This year the situation is much more widespread and in addition to affecting more farmers in absolute numbers, there will also be a considerably higher proportion who, this time, will not be able to meet the Bank's equity criteria.

In addition it will be necessary again to assist in preservation of stock by subsidising stock movement out of drought areas for agistment and, where such is justified, by subsidising freight on fodder and water into the drought areas. It may also be necessary to subsidise grain prices for stock feeding. It seems quite certain also that, as with the 1967 drought arrangements, it will be necessary again to meet the cost of getting water for stock and domestic usage to properties not served by reticulated water supplies.

As a corollary to the above, my Government believes it to be most important for farmers to be able to gain access to funds which do not involve any interest or repayment obligations. Experience with the 1967 drought indicated that the arrangements under which persons may qualify for unemployment relief are such as to normally preclude farmers from relief in this fashion. Perhaps the most useful sort of assistance short of a straight out gift is the provision of employment. In 1967 grants totalling \$768,000 were made to local authorities for employment of farmers on approved works, and it is suggested that this form of relief be again authorised. Once again I emphasise that whilst relief works were concentrated in the Mallee area on the occasion of the last drought, the requirement this time will be much more widespread. The Press currently reports that the farmers from the northern areas are at present seeking and accepting employment of any kind, with or without the use of their vehicles, so long as it is not at too great a distance from their farm. I am sure that you will agree that any form of assistance, where the recipient is paid a fair price for a fair job, has the proper respect for dignity which is an essential part of the Australian way of life.

A second way of assisting farmers would be to advance the time for payment to them of monies due and becoming due for wheat already delivered. Many of the people whose finances are critical would receive some relief if they could receive further payments now in respect of wheat delivered in the 1968/1969 and 1969/1970 harvests. Many of them have "over quota" wheat in silos and, whilst they will have no crop at all this year, they will become entitled to a first payment in relation to this "over quota" wheat when deliveries of the 1970/1971 harvest commence. Their situation would be materially relieved if this payment, due say December, could be made now. I ask that you give this suggestion your serious and urgent consideration. If such payments may not be made through the Australian Wheat Board, perhaps arrangements could be made for the State to be placed in funds by an advance from your Treasury, and for the State in turn to make payments to farmers against the security of an assignment of their interest in payments due in respect of the earlier harvests, and of their interest in their "over quota" wheat to count against their 1971 quota. I am informed that some 12 million bushels of "over quota" wheat are held in silos in South Australia.

The following represents the best assessment which may be made at the present time.

In the areas of the West Coast, the northern areas, and the Mallee, there are over 2,000 farming holdings. The experience of the 1967 drought was that some 200 farmers applied for assistance and that the assistance granted represented an average of \$2,800 per applicant. As pointed out earlier, the 1967 experience was concerned in by far the majority of cases with the Murray Mallee. On this occasion we have the other two areas and we have the expectation that a very much higher proportion of applicants will fail to obtain normal commercial finance. I think it must be accepted too, that the security for any advances made under any scheme adopted will be restricted to a security over crops as in most cases the farmer's equity in property will be marginal. I have heard that only about half of the 900 odd farmers in the northern area, which has been affected by drought, have sown a crop this year. There could easily be, on this occasion, five or six times the number of applicants for assistance compared with the last drought.

Converting these into figures, the following preliminary estimates are made of the cost of providing relief measures:-

Loans to applicants	\$3,000,000
Freights rebates on fodder and water	\$ 500,000
Grant for employment producing works	\$2,000,000
Emergency water supply measures	\$ 500,000
	<u>\$6,000,000</u>

The second category relates to those farmers whose situation is complicated by the fact that they have undertaken financial responsibilities which were based on the reasonable productivity of the land at the time. The present trend in costs seems likely to rise. Whilst there could be some margin for improvement in efficiency in some areas of farm management, it is difficult to see continuing economies sufficient to offset the continuing cost increases. At the same time there seems little ground for optimism that prices for primary products will improve substantially. In these circumstances, present and prospective returns will not permit these farmers to meet their living expenses, their overheads and their debt servicing and redemption. Left alone these farmers will almost certainly proceed to bankruptcy with consequent loss to themselves and their secured and unsecured creditors.

The farmers themselves have quite certainly lost a large part, if not all, of their equity in their land. There are no buyers at prices which would discharge mortgages and leave equity to the farmer. In fact, if a buyer could be obtained in these cases, even the first mortgagee would be involved in substantial losses in many cases. Nonetheless some of the farms in this category could continue to yield a reasonable return for the labour of their owners, were it not for the high annual cost of servicing their indebtedness. There thus could be some farmers who, in addition to requiring carry-on finance, would require some measure of debt adjustment to become viable.

The final category concerns those whose operations were quite marginal before the abrupt downturn in returns from primary production, and whose operations, even given a measure of debt adjustment, are no longer viable at all. They have little hope of survival in the present situation because their returns will not permit them to even make a decent living. For example, some farms have wheat quotas of less than 2,000 bushels and little, if any, net return from wool proceeds from the sheep the property will carry, after allowing for production shearing and transport costs. Somehow these people have to be phased out of the industry. This may involve the provision of funds for amalgamation purposes, of properties which are less than economic units - a repetition perhaps of the marginal lands schemes of 30 years ago.

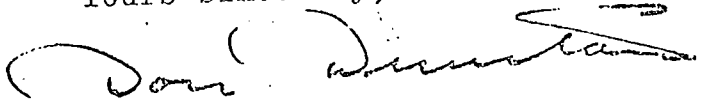
In this regard the present owner, committed as he is, may not be able to expect to get out with any surplus on the disposal of his land. He may have to be satisfied to get out with a fresh start debt free, whilst his secured creditors may have to write off some part of their advances, and a substantial part at that, for the sake of getting any sort of an offer for the property. Under present circumstances only the Government would be interested in buying, and then only for amalgamation.

Accordingly, Mr. Prime Minister, I seek the consideration of your Government to the implementation of a scheme to enable the less than viable units in marginal areas to be phased out of production. This involves the provision of capital funds for acquisition and, where the marginal producer receives no proceeds from the sale of the property, the further provision of funds for living expenses to cover a period of re-adjustment to enable him to leave the property and secure housing and employment in some other area.

In the first place I would appreciate your urgent advice that the Commonwealth will provide the necessary funds to meet the proposed urgent drought relief measures. You appreciate, I am sure, the difficulties of translating these proposals into money terms.

I would appreciate your consideration of the request that the Commonwealth provide finance, as was the case in the earlier exercise, for re-construction of holdings in the marginal areas. My officers will be pleased to discuss the details of such a scheme, and its implementation, with your officers as soon as is practicable.

Yours sincerely,



PREMIER.

The Rt. Hon. J.G. Gorton, M.P.,  
Prime Minister,  
Parliament House,  
CANBERRA. A.C.T. 2600